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PRIME POTASH CORPORATION OF CANADA LIMITED

Formerly

Porcupine Prime Mines Limited

(No Personal Liability)

Annual Report

1965

APR 2 2 1966

BOARD OF DIRECTORS

J. C. D. BOUCHARD
President, Bouchard & Co. Ltd.

ANDRE GOURD
President, Prime Potash Corporation of Canada Limited

ALLISON F. HEATHER, P. Eng. (Ont.)
Vice President & Mine Manager, Sapawe Gold Mines Limited

WILLARD J. La MORTE
President, Shattuck Denn Mining Corporation

JOHN A. MOSS
President, Richmond Screw Anchor Company of Canada Limited

OFFICERS

Chairman of the Board	—	WILLARD J. La MORTE
President	—	ANDRE GOURD
Treasurer	—	W. H. CONNOLLY
Secretary	—	EILEEN McBAIN
Asst. Sec.-Treasurer	—	ELIZABETH DILLON

CAPITALIZATION

Authorized 7,500,000 Shares ..... $1.00 Par Value
Issued 5,000,000 Shares

REGISTRAR and TRANSFER AGENT

The Canada Trust Company
110 Yonge Street
Toronto, Canada

EXECUTIVE OFFICE

1015 Beaver Hall Hill
Montreal, Canada

ENGINEERING and MANAGEMENT ADMINISTRATORS

Canadian Beaver Mining Company Limited
Montreal, Canada

AUDITORS

Eddis & Associates
86 Richmond Street West,
Toronto 1, Canada

The stock of Prime Potash Corporation of Canada Limited is listed on the Canadian Stock Exchange.

The information herein contained is for the existing shareholders of the Company exclusively and there is no offer to sell or inducement to buy intended within the meaning of Canadian or United States securities laws.

President's Message to Shareholders

On September 16, 1965 the management of your company was assumed by Canadian Beaver Mining Company Limited, a wholly owned Canadian subsidiary of Shattuck Denn Mining Corporation, U.S.A. As a result, new policies have been established, one of which is to issue annual and periodic reports in order to keep you up-to-date on the development of the company's properties, as well as any other activities that might prove of interest to you.

BACKGROUND INFORMATION

In order to present this report, it will be necessary to delve into the company's history. Prime Potash Corporation of Canada Limited was incorporated originally as Pincortez Mines Limited on March 20, 1940, in Ontario. On September 1, 1949, the name was changed to Porcupine Prime Mines Limited. In order to reflect the company's major exploration endeavour, on December 16, 1965, the name was again changed to the present one, Prime Potash Corporation of Canada Limited.

Your company has the following interests :

60% of a Potash Permit, encompassing 98,540 acres in Saskatchewan;
365 acres of patented mining claims in Tisdale Township, Ontario;
11 mining claims consisting of approximately 1030 acres situated in the Township of Dufresnoy, Quebec;
14 mining claims comprising approximately 740 acres in Fournière Township, Province of Quebec;
Petroleum and natural gas leases in Alberta.

POTASH

World demand for potash is continually increasing. It is estimated that the world population between now and the year 2000 will have doubled and the need to increase crop yields is becoming more and more obvious.

Potash output has remained constant from the normal sources, outside of Canada, while production from Canada has been on the increase. Canada will soon become the major world producer of potash.

The reserves of potash in Saskatchewan are of a superior grade and they have been estimated at 10 billion tons of 25% to 30% K_2O and considerably more of a slightly lower grade. These deposits were first discovered in the 1940's in cores from oil well drilling. Since that time world-wide interest has been drawn to these deposits because of their relative richness. Continuous production from the deposits has been carried on since 1962. More and more major companies are becoming interested in developing these deposits as the need for potash increases.

The three continents of Asia, Africa and South America are on the threshhold of the biggest famine in history. The population growth of these continents is outstripping food production by far; recent evidence of this are the sales by Canada and U.S. of surplus grain and food to these countries.

To alleviate this crop shortage, some new lands, not yet potash deficient, can be cultivated. However, even with this, it will not be long before potash will have to be added annually to replace that removed by the crops. It is estimated that between 50 and 200 pounds per acre is extracted from the soil by the various crops grown and when you take into consideration the world's tillable acreage, amounting to approximately four billion acres, it becomes obvious that the need for potash will continually increase.

We have taken this opportunity to familiarize you with potash, since during 1965 the main efforts of this company and a large portion of funds expended have been and will continue to be towards the development of the company's potash properties in Saskatchewan.

1965 ACTIVITIES

All work performed in 1965 has been confined to the Potash Permit in Saskatchewan, obtained under an option agreement with Bison Petroleum & Minerals Limited, covering the Bison Potash Permit # 1, totalling approximately 98,540 acres. The option was dependent on your company drilling three exploratory wells by June 3, 1966 to a depth sufficient to test the Prairie Evaporite formation. The objective of these wells was to provide maximum coverage of the Permit and their results, correlated with the seismic survey, will give an idea of the potential of the property.

Well # 1 was completed in April 1965 to a depth of 4198 feet and it intersected the potash beds at 3999 feet. Three separate potash beds were cut with a combined thickness of 34½ feet, averaging 26.2% K_2O equivalent.

Well # 2, which is a step-out well, approximately five miles to the northwest of Well # 1, was completed on December 27 and intersected the potash beds at 4242 feet and the three zones showed a combined thickness of 28 feet, grading 25.1% K_2O equivalent.

Well # 3, completed on January 25, 1966, approximately six months before the deadline, is a step-out well approximately 3.6 miles to the southwest of Well # 1, and it intersected the potash beds at 4225 feet. The combined thickness of the mineable grade amounted to 49 feet, having a grade of 26.1% K_2O equivalent.

Please bear in mind that these thicknesses and grades have been considered for conventional mining. If solution mining were to be used, Well # 3 would have approximately 77 feet, grading 23.2% K_2O equivalent, or roughly 80,000 tons of potash per acre in the vicinity of this well.

The locations of the three wells are shown on the map which is made part of this report. The map also shows the original Tidewater Associated Oil Company well, which was drilled in 1956, and in which the Gamma Ray log verified the presence of radioactive potassium over a 130 foot interval.

The grades and thicknesses of potash obtained as the result of drilling Wells # 1, 2 and 3 compare favourably with the ore presently being mined in the potash basin. Since the results of these wells, combined with the data from Tidewater and the seismic survey results reveal a large tonnage potential, a feasibility study is currently being made as to suitable mining and processing methods.

Prime Potash will form a new company under Ontario laws, 60% owned by Prime Potash and 40% owned by Bison Petroleum & Minerals Limited, with the new company acquiring the title to Bison Petroleum & Minerals Limited Potash Permit No. 1.

During 1965, your company received income as the result of oil and gas leases in Alberta which is shown in the financial statement. These leases involve a 1/16 of the net working interest in the Hargal-Leduc Wells # 1 to 4 and a 1/16 of the net working interest in the New Pacalta-Whitemud Wells # 1 and 2A.

On October 1, 1965, your company entered into an agreement with Canadian Beaver Mining Company Limited, a wholly-owned Canadian subsidiary of Shattuck Denn Mining Corporation, U.S.A., whereas Canadian Beaver would furnish to Prime Potash Corporation of Canada Limited, all administrative services, office space, accounting, engineering, technical and legal services as required in the

ordinary routine affairs of the company. Special engineering, independent auditing, travel expenses incurred on special projects, etc., would be for the account of Prime Potash. For these services, Canadian Beaver Mining Company Limited, is paid a monthly fee of $500.00 which is subject to cancellation by either party upon 60 days' notice.

A LOOK AHEAD

During 1966 your management will confine its efforts to the Potash Permit, results of which have so far been very encouraging.

Previous explorations carried out on the Dufresnoy and Fournière properties have not been encouraging and these claims will be allowed to lapse during 1966. The Tisdale township property will be retained as the claims are patented and no major expenditure is involved. No additional work is planned at the present but the property could be of value if there is an increase in the price of gold.

Predicated on the progress being made by your company, it will be the policy of the management to utilize part of the funds realized through any underwritings and option agreements, as well as from profits, for the further development of Prime Potash Corporation's main property; for continued study, exploration and possible acquisition of other promising properties; for participation in new and/or already going operations and for payment of its operating expenses.

Your management takes this opportunity to thank you for the many expressions of confidence which you have shown and to solicit your continued cooperation.

Montreal, Quebec,
April 1, 1966.

On Behalf of the Board

ANDRE GOURD,
President

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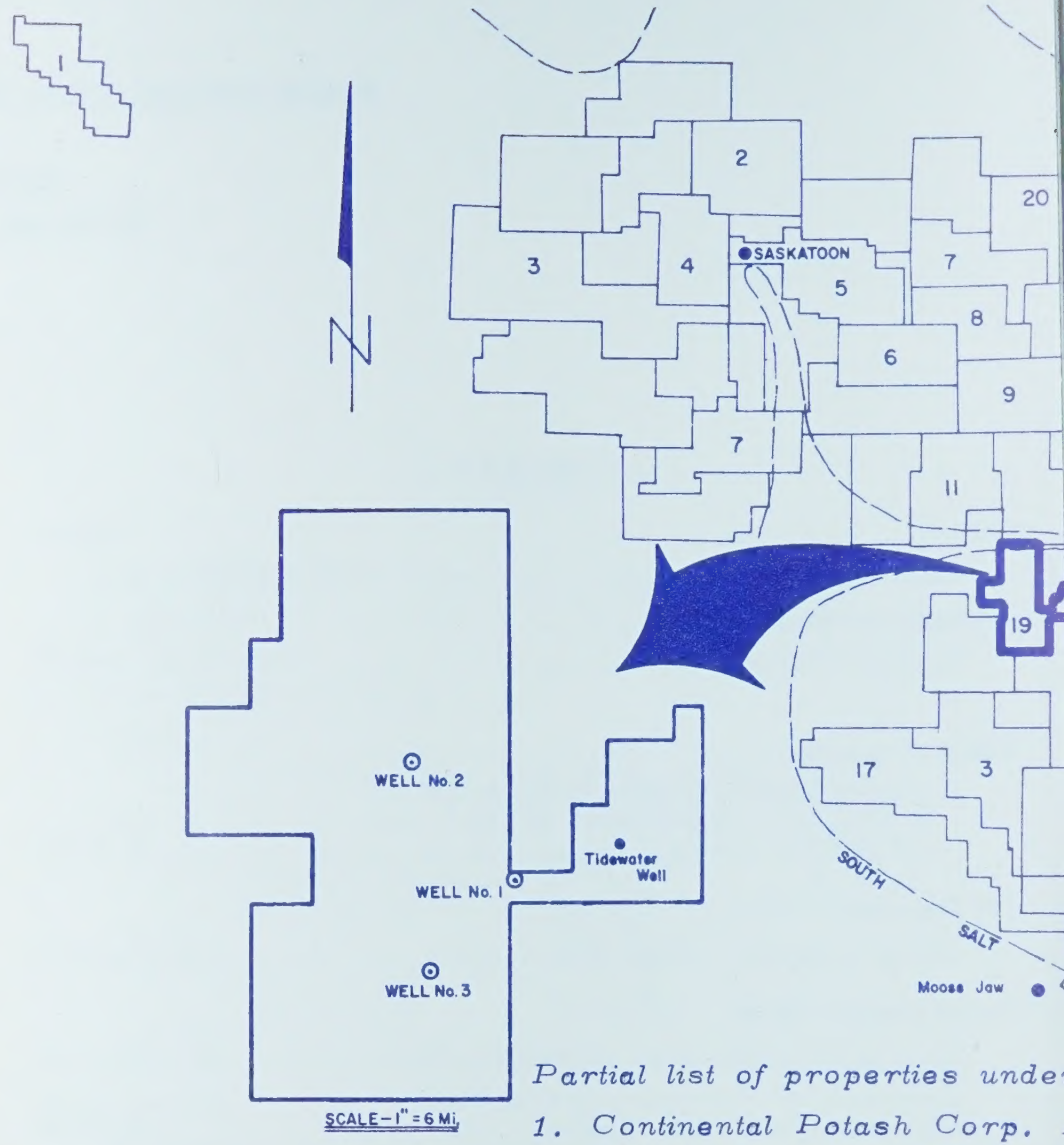
On Behalf of the Board

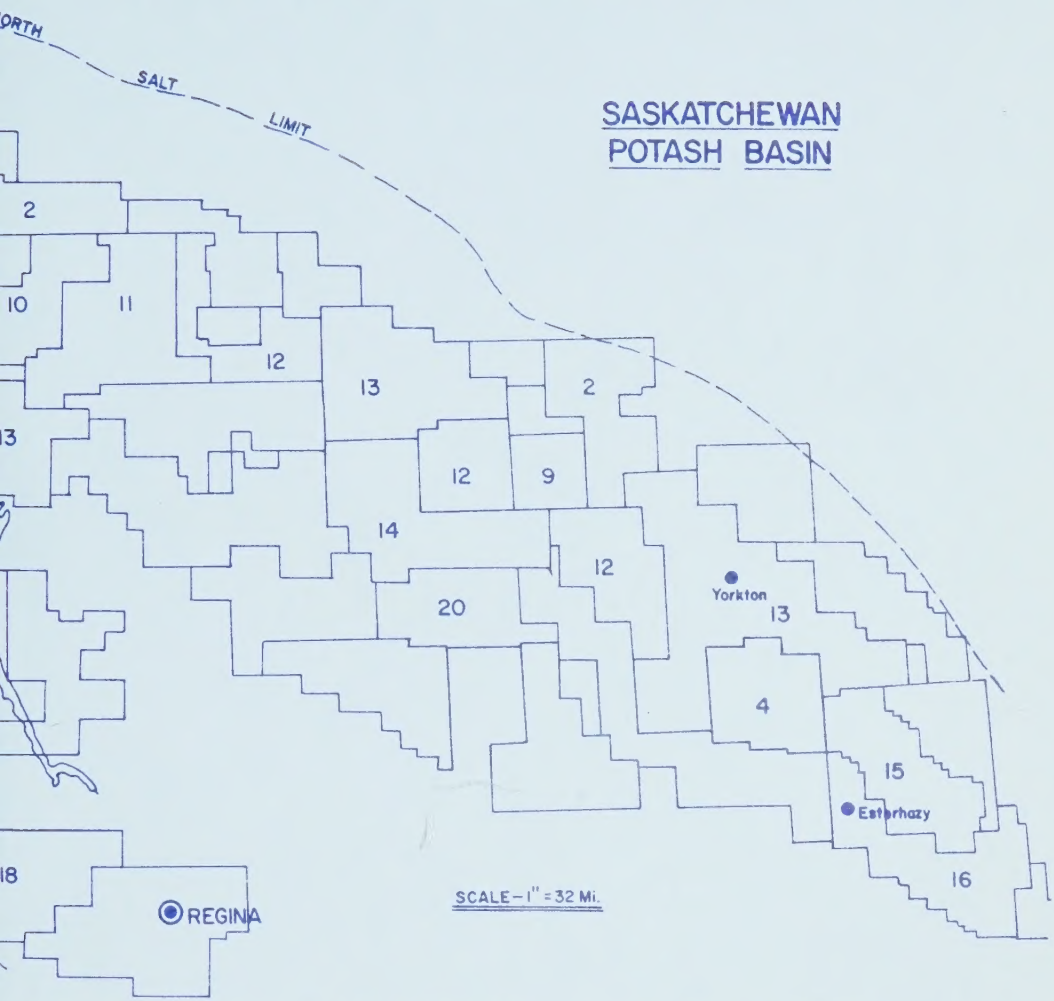
ANDRE GOURD,
President



Partial list of properties unde

1. *Continental Potash Corp.*
2. *British American Oil Co. I*
3. **The Cons. Mining & Smeltin of Canada, Lim*
4. **Duval Sulphur & Potash C*
5. **Potash Company of Ameri*
6. **United States Borax & Ch and Homestake Mining C*
7. *Imperial Oil Limited*
8. **Noranda Mines Limited*
9. *Shell Canada Limited*
10. **Alwinsal Potash of Canada*

**In Productio*



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11. *Kerr-McGee Oil Industries Inc.*
12. *Socony Mobil Oil of Canada Ltd.*
13. *Southwest Potash Corporation*
14. *Scurry Rainbow Oil Limited*
15. **Int. Minerals & Chemical Corp. (Canada) Limited*
16. *Tombill Mines Limited*
17. *Sifto Salt (1960) Ltd. (Domtar)*
18. **Kalium Chemicals Limited*
19. *PRIME POTASH CORPORATION of Canada Limited and Bison Petroleum & Minerals Limited*
20. *Brinco Holdings Limited*

PRIME POTASH CORPORA

BALAN
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ASSETS

Current		
Cash	$ 96,827.15	
Accounts receivable	142.68	
Deposits refundable	5,000.00	$101,969.83
Mining Properties		
6 Patented claims in Township of Tisdale, Ontario, acquired for 1,010,000 shares of capital stock and $2,417.55 cash		57,417.55
Oil Properties		
Interest in oil leases, at cost (Note 1)		23,449.50
Potash Property Option		
Expenditures to date as per schedule (Note 2)		97,415.58
Exploration and development, including Head Office and administrative expenses		240,499.42
Incorporation and organization		5,055.00
		$525,806.88

ON OF CANADA LIMITED

SHEET
ER 31, 1965

LIABILITIES

Current			
Accounts payable and accrued charges		17,963.68	
Bank loan		175,000.00	192,963.68
Capital Stock (Notes 3, 4 and 5)			
Authorized :			
7,500,000 shares of $1.00 par value each		$7,500,000.00	
Issued and fully paid :			
2,552,734 shares for properties	2,552,734.00		
Less : Discount	2,410,597.30	142,136.70	
2,447,266 shares for cash	2,447,266.00		
Less : Discount	2,118,534.90	328,731.10	
5,000,000 shares (total)		470,867.80	
Deficit Account			
Cost of mining claims abandoned including exploration and development thereon		138,024.60	332,843.20
			$525,806.88

The accompanying Notes are an integral part of these financial statements and should be read in conjunction therewith.

Approved on behalf of the Board, WILLARD J. La MORTE, Director

ANDRE GOURD, Director

PRIME POTASH CORPORATION OF CANADA LIMITED

Notes to Financial Statements as at December 31, 1965

1. Oil Properties in the Province of Alberta :
   (a) One-sixteenth of the net working interest in Hargal-Leduc # 1 to 4 Wells contained within a unitized area located in Sec. 10, Twp. 50, Rge. 26, W 4th. (Leduc Woodbend Area)
   (b) One-sixteenth of the net working interest in New Pacalta-Whitemud Nos. 1 and 2A Wells contained within a unitized area located in Sec. 9, Twp. 50, Rge. 25, W 4th.
2. Potash Property Option :
   Under the terms of an agreement dated February 24, 1965, the company acquired an option to earn title to a 60% interest in the Bison Petroleum & Minerals Limited Potash Permit No. 1, totalling 98,540 acres (55,040 acres under Crown prospecting permit and the remainder being freehold in disposition) located in the Last Mountain Lake Area of Saskatchewan. The consideration to be paid by the company for the assignment of the said option is 900,000 shares of the company's capital stock, subsequently re-negotiated to 600,000 shares of capital stock and the assumption by the company of all expenses involved in the drilling of a test well on the property. The said shares are to be subject to donation back to a trustee for the company in the event that the properties contained in the Permit are not brought into production within a time determinable or if the Permit is allowed to lapse, is abandoned or otherwise lost. In order for the company to earn the said 60% interest in and to the said Permit, the company is required, under the terms and conditions set out in the said option agreement, to drill two further wells on the said property to a depth sufficient to test the Prairie Evaporite formation, or to a depth of 4,500 feet, whichever is the lesser, within the times therein specified, namely: the second, prior to the expiry of 9 months from the drilling and completion of the first well and the third within 9 months from the drilling and completion of the second well. In addition, a new company is to be incorporated under the laws of the Province of Ontario, and all shares of the capital stock of the new company issued for the purchase of the Bison Potash Permit No. 1 shall be on the following basis : 40% to Bison Petroleum & Minerals Limited and 60% to this company.
3. In accordance with Supplementary Letters Patent dated December 16, 1965 :
   (a) The authorized capital of the company was increased from $5,000,000 to $7,500,000 by the creation of an additional 2,500,000 shares with a par value of $1.00 each ranking on a parity with the 5,000,000 existing shares of the company; and
   (b) The name of the company was changed from Porcupine Prime Mines Limited to Prime Potash Corporation of Canada Limited.
4. Changes in issued share capital during the year :

4,672,739	shares issued and outstanding as at January 1, 1965		438,141.70
327,261	shares since issued for cash	327,261.00	
	Less : Discount	294,534.90	32,726.10
5,000,000	shares issued and outstanding as at December 31, 1965		$470,867.80

5. Under the terms of a proposed Underwriting Agreement dated December 16, 1965 the company agreed to sell to the Underwriters, and the Underwriters agreed to purchase, 1,000,000 shares of the capital stock of the company to be taken down as follows :
   (a) 500,000 shares at 15¢ per share, payable within three days after acceptance by the Quebec Securities Commission and the Canadian Stock Exchange (the "effective date"); and
   (b) 500,000 shares at 20¢ per share, payable within 30 days after the effective date.

PRIME POTASH CORPORATION OF CANADA LIMITED

STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1965

Balance - January 1, 1965		75,714.75
Add :		
Mining claims written off		
Fourniere Township, Quebec	14,000.00	
Dufresnoy Township, Quebec	10,353.00	
Vauquelin Township, Quebec	5,000.00	
	29,353.00	
Exploration and development expenditures on above properties - written off	31,434.85	
Accounts receivable written off	1,320.00	
Field Equipment written off	202.00	62,309.85
Balance - December 31, 1965		$138,024.60

ANALYSIS OF DEFICIT

AS AT DECEMBER 31, 1965

	Mining Claims	Exploration Expenditures	Total
Scott Township, Quebec abandoned in 1959	25,000.00	14,297.90	39,297.90
Red Lake District, Ontario abandoned in 1961	3,000.00		3,000.00
Sudbury Mining District, Ontario - Option, abandoned in 1961	10,000.00	20,416.85	30,416.85
Fourniere Township, Quebec abandoned February 1966	14,000.00	16,928.35	30,928.35
Dufresnoy Township, Quebec abandoned 1965	10,353.00	5,251.50	15,604.50
Vauquelin Township, Quebec abandoned 1965	5,000.00	9,255.00	14,255.00
Cleaver Township, Ontario abandoned 1964	3,000.00		3,000.00
	$70,353.00	$66,149.60	136,502.60
Accounts receivable written off			1,320.00
Field equipment written off			202.00
			$138,024.60

PRIME POTASH CORPORATION OF CANADA LIMITED

STATEMENT OF EXPLORATION AND DEVELOPMENT INCLUDING HEAD OFFICE AND ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED DECEMBER 31, 1965

	As at January 1 1965	Expenditures During Year 1965	Written Off to Deficit	Balance December 31 1965
Exploration and Development				
Diamond drilling	100,935.57	5,008.10	7,979.48	97,964.19
Engineering fees	18,230.35	993.80	3,910.37	15,313.78
Sundry field expenses	3,810.91	1,073.31		4,884.22
Surveys	15,569.50		15,569.50	
Taxes, fees and licenses	17,907.85	1,134.87	3,701.50	15,341.22
Tests, assays and maps	3,372.72		274.00	3,098.72
Travelling	3,849.84	801.40		4,651.24
	163,676.74	9,011.48	31,434.85	141,253.37
Less : Sundry income	625.72			625.72
	163,051.02	9,011.48	31,434.85	140,627.65
Head Office and Administration				
Directors fees	2,400.00	475.00		2,875.00
Government fees and taxes	1,897.43	1,070.83		2,968.26
Interest charges on loans		813.68		813.68
Legal and audit	28,021.46	8,577.69		36,599.15
Listing fees	2,271.87	570.20		2,842.07
Office services, rent, telephone, etc.	19,240.67	4,416.10		23,656.77
Printing, publicity and shareholders' information	16,612.48	2,359.36		18,971.84
Transfer agents' fees and expenses	12,372.92	1,317.15		13,690.07
Loss on sale of investments	12,167.30			12,167.30
Expenses of winding up other company	3,025.68			3,025.68
Travelling		1,440.60		1,440.60
	98,009.81	21,040.61		119,050.42
	261,060.83	30,052.09	31,434.85	259,678.07
DEDUCT :				
Net revenue from oil wells	14,947.35	3,850.47		18,797.82
Interest income	380.83			380.83
	15,328.18	3,850.47		19,178.65
	$245,732.65	$26,201.62	$31,434.85	$240,499.42

PRIME POTASH CORPORATION OF CANADA LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1965

	December 31 1964	1965
Current assets	2,955.25	101,969.83
Current liabilities	150.00	192,963.68
Working capital	$2,805.25	
Working deficit		$90,993.85
Difference		$93,799.10
Source of Funds :		
Receipt of oil revenue	3,850.47	
Proceeds from sale of capital stock	32,726.10	36,576.57
Application of Funds :		
Exploration and development expenses	9,011.48	
Head office and administrative expenses	21,040.61	
Expenditures on potash property permit	97,415.58	
Cost of Supplementary Letters Patent	1,235.00	
Current expenditures written off to Deficit Account	1,673.00	130,375.67
Decrease in working capital		$93,799.10

PRIME POTASH CORPORATION OF CANADA LIMITED

SCHEDULE OF EXPENDITURE ON POTASH PROPERTY PERMIT

FOR THE YEAR ENDED DECEMBER 31, 1965

Porcupine Imperial # 12 - 6		
Drilling	47,663.47	
Lease and license fees	315.00	
Interest charges	1,580.42	
Engineering and supervision	7,080.37	
Tests, etc.	1,348.26	57,987.52
Porcupine Imperial # 8 - 28		
Drilling	36,500.00	
Engineering	1,500.00	
Lease & license fees	300.00	
		38,300.00
Porcupine Stalwart # 15-22		
Lease and license fees		300.00
Sundry expenses re Saskatchewan Operations		
Travelling expenses	441.63	
Maps and photographs	386.43	828.06
		$97,415.58

Annual Report

To the Shareholders,
Prime Potash Corporation of Canada Limited.

We have examined the Balance Sheet of Prime Potash Corporation of Canada Limited as at December 31, 1965 and the Statement of Exploration and Development, including Head Office and Administrative Expenses, and Statement of Deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. All our requirements as auditors have been complied with.

We report that, in our opinion, the attached Balance Sheet and accompanying Statements of Exploration and Development and Deficit present fairly the financial position of the Company as at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have also examined the accompanying Statement of Source and Application of Funds for the year ended December 31, 1965. In our opinion the Statement presents fairly the sources and applications of funds for the year.

Toronto, Canada,
January 14, 1966.

EDDIS & ASSOCIATES
Chartered Accountants.